

Marico

Rs54.8

OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs33.3bn; US\$794m

Analyst: Nikhil Vora (91-22-6638 3308; nikhilvora@sski.co.in)
 Bhushan Gajaria (91-22-6638 3367; bhushangajaria@sski.co.in)
 Rahul Narayan (91-22-6638 3238; rahulnarayan@sski.co.in)

Result: FY07

Comment: Fine Tuning!

Last Report: 22 January 2007 (Price Rs56.6; Recommendation: Outperformer)

Key valuation metrics

(Rs m)	Net Sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	EV/E (x)	PER (x)
FY05	10,127	19.5	687	1.2	18.5	36.2	46.3
FY06	11,439	13.0	868	1.5	26.4	23.1	36.6
FY07	15,569	36.1	1,122	1.8	23.1	15.4	29.7
FY08E	18,010	15.7	1,657	2.7	47.7	12.7	20.1
FY09E	20,577	14.3	2,009	3.3	21.2	10.7	16.6

Source: SSKI Research; Company

Meeting our expectations, Marico recorded a 35% growth in revenues for FY07 at Rs15.5 bn. While domestic operations contributed 21% of the growth, overseas acquisitions contributed 14%. With a product portfolio extending beyond just oil business and lower copra prices for the major part of the year, EBITDA margins have expanded by 100bp in FY07 at 13.6%. PAT (post amortization of brands at -Rs250m) has grown by 29% at Rs1.1bn in FY07. However, higher other expenditure (impairment charge of assets in Kaya and start-up expenses in overseas operations) and increasing input prices in Q4FY07 have led to margin contraction of 210bp in Q4FY07.

We believe Marico has the platform for sustainable growth. While its core brands like *Parachute* (13% growth in Q4FY07) and *Saffola* (19% growth in Q4FY07) maintain their growth patterns, new ventures like Kaya Clinic (56% growth yoy) and international operations (sales Rs1.9bn in FY07) add further momentum. Besides these growth propellers, we like Marico's transition to broader health and wellness platform and thereby its appetite to enter newer segments and take inorganic route of growth. As Marico sustains top line growth momentum at over 15% CAGR over the next two years and margin profile getting in sync with its peers in consumer space, Marico is trading at relative attractive valuations of 17.5x FY09E earnings. Maintain Out performer with target price of Rs66.

HIGHLIGHTS OF FY07 RESULTS

□ Growth momentum maintained

Marico has maintained its growth momentum with revenues growing by 35% in FY07 to Rs15.5 bn. On-going businesses contributed 21% of the growth, while domestic and overseas acquisitions contributed 14%. Marico's core brands showed consistent growth in Q4FY07, with *Parachute* growing at 13% while *Saffola* grew at 19%. The overseas business has also contributed to the growth momentum, with Kaya Clinic growing at 56% (at Rs750m) and international brands added Rs1.9 bn to the top-line. 14% of the growth during the year is contributed through series of acquisitions that Marico has done in the recent times – Nihar from HLL and Haircode and Fiancee brands in Egypt.

❑ Margins expand in FY07, but pressure felt in Q4FY07

With Marico's product portfolio expanding from pure oil operations to a broader health and wellness platform, as also copra prices remain low ebb for the first eight to nine months, Marico's EBITDA margin has expanded by 100bp during FY07 at 13.6%. However, Marico has felt the heat of increasing copra prices in Q4FY07 and material cost to sales has moved up by 60bp in Q4FY07 (52%). Margins have also been affected during Q4FY07 on account of 70% increase in other expenditure due to a one-time impairment charge of assets in Kaya and other start-up expenses incurred in overseas operations. Going forward, while the copra prices have begun to firm up, we expect Marico to maintain margins on the back of changing product mix in favour of personal care portfolio.

Margins remain flat

Cost structure (%)	Q4FY07	FY07	Q4FY06	FY06
Raw material	49.8	48.4	45.3	48.3
Staff cost	4.7	6.1	6.4	7.8
Advertising and publicity	16.7	15.5	18.5	13.8
Other expenditure	20.6	18.7	16.6	18.1
Operating margin	10.1	13.6	12.2	12.6

Source: SSKI Research, Company

❑ Growth edifices in place

Marico's product portfolio and growth strategy continues to excite us. With a focus on strengthening their core brands like *Parachute* (57% market share in the branded coconut oil market) and *Saffola*, while also promoting the new growth drivers like Kaya Clinics and the international FMCG business, Marico has the platform to maintain growth. Marico continues to introduce new products in different categories like functional foods (*Saffola Atta Mix*), shower gels (*Parachute Advanced* and *Go Get Noticed*), hair loss treatments (*Parachute Therapie*) and soaps (*Parachute Jasmine*) as it transforms itself into a full-fledged FMCG player.

❑ Strong risk appetite

We like the fact that Marico is aggressively targeting inorganic growth opportunities. Besides acquiring *Nihar* in FY06, Marico also acquired businesses in Egypt (*Fiancee and Hair Code*) and Bangladesh in FY07 and the acquisitions contributed close to 14% to the overall growth. Marico's Egyptian operations contributed Rs170m to top line, while the company has captured 58% of the branded coconut oil market in Bangladesh. We expect the company to aggressively pursue inorganic growth in India and overseas.

❑ Pure Consumer play – Maintain Outperformer

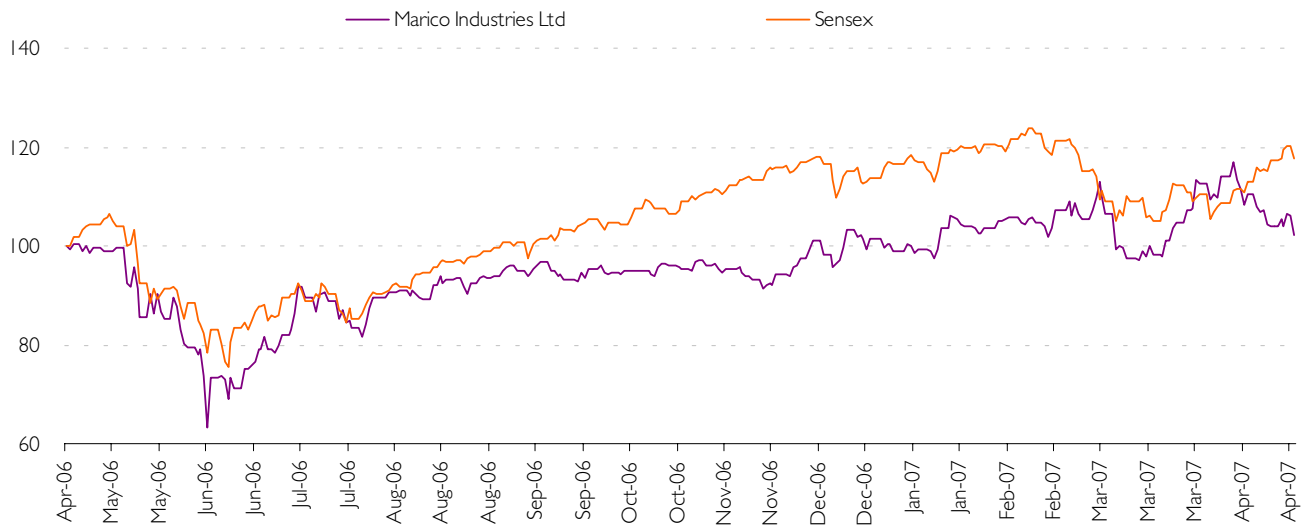
We believe Marico will continue to maintain its growth momentum and the growth propellers are in place. Importantly, Marico is well on its way to becoming a full-fledged FMCG player and we expect margins to be in line with other consumer majors. Maintain Outperformer with a target price of Rs66 based on a 20x FY09E earnings target.

Quarterly Results

Rs Mn	Q4FY06	FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	FY07	FY08E	FY09E
Net Sales	2,977	11,439	3,728	3,780	4,092	3,970	15,569	18,010	20,577
%yoy	17.3	13.0	36.6	36.4	34.7	26.6	36.1	15.7	14.3
Operating profit	364	1,443	563	605	551	401	2,119	2,493	2,998
EBITDA	12.2	12.6	15.1	16.0	13.5	10.1	13.6	13.8	14.6
Net Interest	23	51	48	57	54	47	206	180	103
Depreciation	96	448	111	127	168	115	507	307	343
Other Income	2	35	11	1	3	87	102	117	131
Profit before tax	247	980	414	422	332	326	1,508	2,123	2,682
Tax	3	111	111	116	55	51	385	466	674
PAT	244	868	303	306	277	275	1,122	1,657	2,009
%yoy	24.5	26.4	46.0	53.4	26.4	17.3	29.2	47.7	21.2

Source: SSKI Research, Company

Relative price performance



SSKI INDIA

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6638 3300
Pathik Gandotra	Head of Research; Banking, Strategy	pathik@sski.co.in	91-22-6638 3304
Shirish Rane	Cement, Construction, Power, Real Estate	shirish@sski.co.in	91-22-6638 3313
Nikhil Vora	FMCG, Media, Retailing, Mid Caps	nikhilvora@sski.co.in	91-22-6638 3308
Ramnath S	Automobiles, Auto ancillaries	ramnaths@sski.co.in	91-22-6638 3380
Nitin Agarwal	Pharmaceuticals	nitinagarwal@sski.co.in	91-22-6638 3395
Ganesh Duvvuri	IT Services, Telecom	ganesh@sski.co.in	91-22-6638 3358
Varatharajan S	Oil & Gas, Engineering	varatharajan@sski.co.in	91-22-6638 3240
Chirag Shah	Textiles, Metals, Real Estate	chiragshah@sski.co.in	91-22-6638 3306
Bhoomika Nair	Construction, Power, Logistics	bhoomika@sski.co.in	91-22-6638 3337
Avishek Datta	Oil & Gas, Engineering	avishek@sski.co.in	91-22-6638 3217
Bhushan Gajaria	FMCG, Retailing, Media	bhushangajaria@sski.co.in	91-22-6638 3367
Shreyash Devalkar	IT Services, Telecom	shreyashdevalkar@sski.co.in	91-22-6638 3311
Nilesh Parikh, CFA	Banking	nilesh@sski.co.in	91-22-6638 3325
Veekesh Gandhi	Banking	veekesh@sski.co.in	91-22-6638 3231
Ashish Shah	Automobiles, Auto ancillaries	ashishshah@sski.co.in	91-22-6638 3371
Salil Desai	Cement, Infrastructure	salil@sski.co.in	91-22-6638 3373
Rahul Narayan	FMCG, Retailing, Media	rahulnarayan@sski.co.in	91-22-6638 3238
Suchit Sehgal	Mid Caps	suchitsehgal@sski.co.in	91-22-6638 3307
Nityam Shah	Automobiles, Auto ancillaries	nityam@sski.co.in	91-22-6638 3327
Uday Joshi	Technical Analyst	udayjoshi@sski.co.in	91-22-6638 3392
Dharmendra Sahu	Database Manager	dharmendra@sski.co.in	91-22-6638 3382
Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6638 3300
Naishadh Paleja	CEO	naishadh@sski.co.in	91-22-6638 3211
GV Alankara	Head of Dealing	alankara@sski.co.in	91-22-6638 3201-210
Vishal Purohit	VP - Sales	vishalp@sski.co.in	91-22-6638 3212
Nikhil Gholani	VP - Sales	nikhilgholani@sski.co.in	91-22-6638 3363
Sanjay Panicker	VP - Sales	sanjaypanicker@sski.co.in	91-22-6638 3368
V Navin Roy	AVP - Sales	navin@sski.co.in	91-22-6638 3370
Rohan Soares	AVP - Sales	rohan@sski.co.in	91-22-6638 3310
Rishi Kohli	VP - Derivatives	rishikohli@sski.co.in	91-22-6638 3321/403
Pawan Sharma	AVP - Derivatives	pawansharma@sski.co.in	91-22-6638 3403
Dipesh Shah	AVP - Derivatives	dipeshshah@sski.co.in	91-22-6638 3403
Manohar Wadhwa	AVP - Derivatives	manohar@sski.co.in	91-22-6638 3403

Disclaimer

This document has been prepared by S S Kantilal Ishwarlal Securities Private Limited (SSKI). SSKI and its subsidiaries and associated companies are full-service, integrated investment banking, investment management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities.

This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavor to update the information herein on reasonable basis, SSKI, its subsidiaries and associated companies, their directors and employees ("SSKI and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SSKI and affiliates from doing so.

We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved). The investment discussed or views expressed may not be suitable for all investors.

Affiliates of SSKI may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SSKI and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

SSKI & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. SSKI and affiliates may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SSKI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of SSKI and affiliates.

This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. SSKI will not treat recipients as customers by virtue of their receiving this report.

Explanation of Ratings:

1. Outperformer: More than 10% to Index
2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

Disclosure of interest:

1. SSKI and its affiliates have not received compensation from the company covered herein in the past twelve months for Issue Management, Capital Structure, Mergers & Acquisitions, Buyback of shares and Other corporate advisory services.
2. Affiliates of SSKI are currently not having any mandate from the subject company.
3. SSKI and its affiliates do not hold paid up capital of the company.
4. The Equity Analyst and his/her relatives/dependents hold no shares of the company covered as on the date of publication of research on the subject company.